

FINDING OF NO SIGNIFICANT IMPACT
AND DECISION RECORD
EA-NM-510-05-39

DECISION: It is my decision to authorize the Applications For Permit To Drill Or Deepen (APD), for the Lookout "B" Federal #3 and for the Lookout "B" Federal #5 gas wells, submitted by McKay Oil Corporation. The provisions for the approval of the APDs will include the attachment of the Roswell Field Office requirements as defined in the following exhibits; Exhibit A - Location Map, Exhibit B - Well Drilling Requirements, Exhibit C - Conditions of Approval, Exhibit D - Permanent Resource Road Requirements & (Exhibit E-Lookout "B" Federal #3) Cattleguard Diagram A & B, (Exhibit F - Lookout "B" Federal #3 & Exhibit E - Lookout "B" Federal #5) - Surface Restoration/Reclamation Requirements, (Exhibit G for the Lookout Federal #3) BURIED PIPELINE STIPULATIONS FOR THE ROSWELL FIELD OFFICE, BLM, and any special mitigating measures developed in the environmental assessment for each individual well.

In the event the wells prove to be a dry holes, or when the wells are abandoned, I recommend that reclamation requirements be attached to each individual well abandonment, including additional requirements imperative for the complete reclamation of the disturbed areas. These actions are subject to 43 CFR 3160 regulations for Onshore Oil and Gas operations on federal lease NM-36192.

Authority for these actions is the Mineral Leasing Act of February 25, 1920, as amended.

These actions will affect public land described as: New Mexico Principal Meridian

Lookout "B" Federal #3; Section 10; SW $\frac{1}{4}$ SW $\frac{1}{4}$, 810' FSL & 660' FWL,
ON-LEASE BURIED PIPELINE TIE-IN POINT; SW $\frac{1}{4}$ NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 10,
Lookout "B" Federal #5; Section 9; SE $\frac{1}{4}$ SE $\frac{1}{4}$, 1310' FSL & 400' FEL

T. 6 S., R. 22 E.

FINDING OF NO SIGNIFICANT IMPACT: Based on the analysis of potential environmental impacts contained in the attached environmental assessment, I have determined that impacts resulting from the proposed actions are not expected to be significant and an environmental impact statement is not required.

RATIONALE FOR DECISION: The proposed actions would not result in any undue or unnecessary environmental degradation. Portions of the subject land and adjacent land have been used for similar purposes and all present and potential uses and users have been considered.

COMPLIANCE AND MONITORING: The construction phase of the proposed actions and subsequent operational phases will be monitored as per regulations.

/s/ Armando A. Lopez

6/6/05

For Larry D. Bray, Assistant Field Manager,
Lands and Minerals

Date

ENVIRONMENTAL ASSESSMENT
EA# NM-510-05-39

BLM Serial #: NM-36192

WELL NAME & NO.: Lookout “B” Federal #3
Section 10, 810' FSL & 660' FWL, Unit Letter M

WELL NAME & NO.: Lookout “B” Federal #5
Section 9, 1310' FSL & 400' FEL, Unit Letter P

T. 6 S., R. 22 E., NMPM,

Chaves County, New Mexico

OPERATOR: McKay Oil Corporation

ACTION: Applications for Permit to Drill

SURFACE/MINERAL ESTATE: Federal Minerals/Surface

I. Introduction

A. Need for the Proposed Action:

McKay Oil Corporation proposes to drill and complete two (2) natural gas wells at the locations described above. The proposed actions are needed to develop the mineral lease.

A-1. APD Proposed Action (On-lease Buried Pipeline):

The APD process was used to the extent possible for a proposed on-lease action. McKay Oil Corporation is utilizing the APD process in combination with an on-lease action to construct a buried pipeline. McKay Oil Corporation proposes to construct, operate, and maintain, a buried 27 inch natural gas steel pipeline. The pipeline is approximately 1188.7 feet (0.23 mile) in length and would be buried across country (See Exhibit A). The pipeline would have related appurtenance that would consist of meter station, gas separator, valves, and cathodic protection.

The proposed action would consist of connecting the Lookout “B” Federal #3 gas well to an existing pipeline. The tie-in point of the pipeline will be in the SW¹/₄NW¹/₄SW¹/₄ of Section 10, T. 6 S., R. 22 E..

B. Conformance with Land Use Plan:

Oil and gas lease development is in conformance with the Roswell Approved Resource Management Plan and Record of Decision, October 1997.

The APD was utilized as an application for an on-lease buried pipeline proposed action and the proposal is also in conformance with RFO-RMP.

C. Relationship to Statutes, Regulations, or other Plans:

The proposed actions do not conflict with any known State or local planning, ordinance or zoning.

II. Proposed Action and Alternatives

A. Background of the proposed action:

1. Lookout “B” Federal #3;

The access road was rerouted because the proposed new reroute road could be utilized to access another proposed well (Four Mile Draw “B” Federal #8) and would minimize multiple road construction. The new road route would access two wells and would be shorter in length with less road construction. The new road route would also be utilized for an on-lease pipeline corridor.

2. Lookout “B” Federal #5;

The access road and well pad would be approved as proposed.

B. Proposed Action:

McKay Oil Corporation submitted two (2) Notices of Staking on 3-11-05, to drill the Lookout “B” Federal #3 & Lookout “B” Federal #5 gas wells. The Applications for Permit to Drill were submitted on 5/6/05.

The proposed action would include:

1. Lookout “B” Federal #3;

a. The proposed road is approximately 1550 feet in length, beginning from the Stargrass County road to the proposed well pad. The entire length of 1550 feet is new access road construction, and about 1300 feet of road would cross public land. The road would have a driving surface (travelway) of 14 feet, with a maximum 30-foot wide surface disturbance area for the road construction. The proposed access road would be constructed and maintained in accordance with the New Mexico Road Policy. No Right-of-Way is required.

The construction of approximately 1550 feet of new access road would begin from the Stargrass County road and would access the southwest corner of the proposed well pad. All other existing access roads would be maintained in as good or better condition than were existing at the commencement of operations. A cattleguard would be constructed and installed at the fence crossing in the 1/64 of Sec. 10 - T. 6 S. -R. 22 E..

The construction of the proposed Lookout “B” Federal #3 well pad would be 220 feet long by 210 feet wide. The construction of the reserve pit would be about 50 feet by 100 feet and dug 4 feet below ground level. The reserve pit would be located on the NORTH side of the well pad. The well will be drilled to a depth of 4,300 feet.

On-Lease Pipeline - The APD process was utilized by the operator for the on-lease buried pipeline construction and for the related appurtenance for the Lookout “B” Federal #3 gas well. The pipeline construction would include; digging a trench 36 inches deep, constructing a trench within a maximum disturbance limit of 20 feet, and the pipeline will be buried across country (SEE EXHIBIT A) within the archaeological survey corridor. The pipeline would also be buried 48 inches deep under all road crossings. A trencher is a kind of ditch digging machine that would be used to construct the pipeline trench.

2. Lookout “B” Federal #5;

a. The proposed road is approximately 1150 feet in length, beginning from the Stargrass County road to the proposed well pad. Of the 1150 feet, approximately 900 feet is existing road and 250 feet is new access road construction, and all 250 feet of new access road construction would cross public land. The road would have a driving surface (travelway) of 14 feet, with a maximum 30-foot wide surface disturbance area for the road construction. The proposed access road would be constructed and maintained in accordance with the New Mexico Road Policy. No Right-of-Way is required.

The construction of approximately 250 feet of new access road would begin from an existing road and would access the northwest corner of the proposed well pad. All other existing access roads would be maintained in as good or better condition

than were existing at the commencement of operations.

The construction of the proposed Lookout "B" Federal #5 well pad would be 220 feet long by 210 feet wide. The construction of the reserve pit would be about 50 feet by 100 feet and dug 4 feet below ground level. The reserve pit would be located on the south side of the well pad. The well will be drilled to a depth of 4,500 feet.

4. Standard oilfield construction equipment consisting of; track-type tractors, motor graders, dump trucks, and water trucks would be used to construct the access roads and well pads. A rotary drilling rig would be used to drill both wells. Associated production facilities (e.g., pipeline, separator, storage tanks, etc.) would be installed during the production phase of these wells. Topsoil would be stockpiled for future use over the disturbed areas for each well.

B. Alternatives:

1. Relocate the Proposed Actions:

The well locations are determined on the basis of subsurface geologic formation and to some extent, by spacing regulations imposed by the New Mexico Oil Conservation District II. No other alternative locations would have significantly fewer impacts than, or have a clear advantage over, the projected locations. Therefore, each alternative for changing the locations involved in these actions are not analyzed further in this EA.

2.) Change the Alignment--Reroute the Project (Buried Pipeline)

The proposed buried pipeline would go across country. The pipeline would be confined within the parameters of the archaeological survey that was done on the pipeline route until it reaches the tie-in point in the SW¹/₄NW¹/₄SW¹/₄ of Section 10, T. 6 S., R. 22 E.. No other route for the pipeline would reduce soil disturbance by minimizing width requirements and maximizing multiple occupancy as directed in the RFO-RMP. The on-lease pipeline route is consistent with the policy of utilizing an approved corridor(s) that would be acceptable for pipeline construction, such as; new and/or existing road routes, two-track roads, utilization of other previously disturbed pipeline routes, and across country if no other option is feasible, etc.. There are no alternate routes which would have substantially less impacts than or any clear advantages over the proposed action. Therefore the alternative of changing the pipeline route is not analyzed any further.

2. No Action:

Under this alternative, the applications would be rejected. None of the environmental impacts associated with the proposed actions or alternate locations would occur. Additionally, economic benefits of the proposed actions would not be realized, and the existing environment, including the developments in place, would remain unchanged.

A-1. No Action (On-Lease Buried Pipeline):

Under this alternative the proposal to construct an on-lease pipeline, submitted in combination with the APD process, would be rejected.

III. Description of the Affected Environment

A. General Setting:

The proposed access roads and well pads are located on federal minerals and surface about 45 miles NE of Roswell, N.M.. Historical and present use of the land has been limited to livestock grazing and energy development.

B. Rights of Record:

An inspection of the Master Title Plats and other Bureau records revealed the following title information pertaining to valid existing prior rights on the subject land:

- Oil and gas leases: NM-36192 - covers lease actions.
- No federally administered rights-of-way would be affected in the project area.
- No mining claims are recorded within Sec. 9 & Sec. 10, T. 6 S., R. 22 E., NMPM.

C. Affected Resources:

The following critical resources have been evaluated and are either not present or are not affected by the proposed action or the alternatives in this EA:

Areas of Critical Environmental Concern (ACEC's)

Cultural Resources (05-R-046-A & 05-R-047-A [access road, pad, & pipeline])

Farmlands, Prime/Unique

Floodplains

Native American Religious Concerns

Wastes, Hazardous/Solid

Wetlands and Riparian Zones

Wild & Scenic Rivers

Wilderness

1. Air Quality:

The areas of the proposed actions are considered Class II air quality areas. Class II areas allow moderate amounts air quality degradation. The primary sources of air pollution are dust from blowing wind on disturbed or exposed soils and exhaust emissions from motorized equipment.

2. Soil:

The Soil Survey of Chaves County, New Mexico, Northern Part (USDA Soil Conservation Service 1980) was used to describe and analyze impacts to soils from the proposed action. The soil map units represented in the project area are:

Ector very cobbly loam, 3 to 15 percent slopes (EaC) Permeability of the unit soil is moderate. Runoff of the unit soil is rapid and the hazard of water erosion is high and the hazard of soil blowing is slight.

Hogadero-Pena association, moderately rolling, 1 to 15 percent slopes (HGC) Permeability of the Hogadero soil is slow. Runoff is slow to medium and the hazard of water erosion is slight to moderate and the hazard of soil blowing is moderate. Permeability of the Pena Soil is moderate. Runoff is medium and the hazard of water erosion is moderate and soil blowing is moderate.

3. Vegetation: GRASSLAND COMMUNITY

This lease is within the grassland vegetative community as identified in the Roswell Resource Management Plan/Environmental Impact Statement (RMP/EIS). Appendix 11 of the Draft RMP/EIS describes the Desired Plant Community (DPC) concept and identifies the components of each community. The distinguishing feature for the grassland community is that grass species typically comprises 75% or more of the potential plant community. Short-grass, mid-grass, and tall-grass species may be found within this community such as blue grama (*Bouteloua gracilis*), black grama (*Bouteloua eriopoda*), threeawn (*Aristida* spp.), burrograss (*Scleropogon brevifolius*), tobosa (*Pleuraphis mutica*) and dropseed (*Sporobolus* spp.) The community also includes shrub, half-shrub, and forb species such as snakeweed (*Gutierrezia sarothrae*), sumac (*Rhus* spp.) and others. The percentages of grasses, forbs, and shrubs actually found at a particular location will vary with recent weather factors and past resource uses.

The Ecological Site Description for the proposed well pad and access road for the Lookout Fed B #3 and Lookout Fed B #5 is [(CP-4 Very Shallow and CP-3 Gravelly respectively). Pecos-Canadian Plains & Valleys].

4. Invasive & Noxious Weeds:

There are no known populations of invasive or noxious weed species on the proposed access roads and well pads.

Infestations of noxious weeds can have a disastrous impact on biodiversity and natural ecosystems. Noxious weeds affect native plant species by out-competing native vegetation for light, water and soil nutrients. Noxious weeds cause estimated losses to producers \$2 to \$3 billion annually. These losses are attributed to: (1) Decreased quality of agricultural products due to high levels of competition from noxious weeds; (2) decreased quantity of agricultural products due to noxious weed infestations; and (3) costs to control and/or prevent the noxious weeds.

Further, noxious weeds can negatively affect livestock and dairy producers by making forage either unpalatable or toxic to livestock, thus decreasing livestock productivity and potentially increasing producers' feed and animal health care costs. Increased costs to operators are eventually borne by consumers.

Noxious weeds also affect recreational uses, and reduce realty values of both the directly influenced and adjacent properties.

Recent federal legislation has been enacted requiring state and county agencies to implement noxious weed control programs. Monies would be made available for these activities from the federal government, generated from the federal tax base. Therefore, all citizens and taxpayers of the United States are directly affected when noxious weed control prevention is not exercised.

5. Ground Water Quality :

Fresh water sources are in the San Andres and Glorieta Formations and the Triassic Redbeds. Fresh water has been found as deep as 470' in section 2, T. 6 S., R. 22 E., approximately 625' in sec. 1, T. 6 S., R. 21 E, and approximately 650' in sec. 14, T. 7 S., R. 22 E. Inquires to the ranchers in the area with regard to the depth of their water wells found the deepest occurrence to be approximately 725 ft. NMOCD recommends setting surface casing at 800 to 850 ft. At this location the deepest expected useable water occurs at a depth of 725'.

6. Wildlife:

Wildlife species utilizing these areas for habitat include mule deer, pronghorn antelope, coyote, fox, rabbits, kangaroo rats, pocket gophers, herptile species, as well as a variety of songbirds, dove, quail, and raptors.

No known special status species (plant/animal) or critical habitat is present within the confines of the access roads and well pads.

There are no known threatened or endangered species of plant or animals within the project areas. The list of federal threatened, endangered and candidate species reviewed for this EA can be found in Appendix 11 of the Roswell Approved RMP (AP11-2).

7. Range:

A. The Lookout "B" Federal #3; access road and well pad are located on a BLM grazing allotment #64007, permitted to Cox-Bilberry Partnership, 1908 N. Montana, Roswell, N.M. 88201.

B. The Lookout "B" Federal #5; access road and well pad are located on a BLM grazing allotment #64012, permitted to David G & Tracy L. Corn, HCR 31 Box 1141, Roswell, N.M. 88201.

8. Visual Resources:

The proposed actions are located within a designated VRM Class IV area. The setting presents a winter gray setting and in warm months, with foliage, a gray to gray-green color pattern.

9. Recreation:

The areas around the proposed projects are primarily used by recreational visitors engaged in hunting, caving, off-highway vehicle use, and other recreational activities. Non-recreation visitors include oil and gas industrial workers and ranchers.

10. Cave/Karst:

While the proposed action is located in the High Potential Karst Area, no surface cave/karst features were observed in the immediate vicinity of the proposed actions.

11. Minority or Low-income Populations or Communities:

The proposed actions would not affect the minority or low-income populations or communities.

IV. ENVIRONMENTAL IMPACTS

A. Proposed Action Impacts:

The surface disturbance involved in the construction of the access road, well pad, and reserve pit for the Lookout “B” Federal #3 would total about 1.6 acres, plus 0.55 acre for pipeline construction. The surface disturbance involved in the construction of the access road, well pad, and reserve pit for the Lookout “B” Federal #5 would total about 1.3 acres. The surface disturbance would total about 3.45 acres of federal surface and 0.1 acre of private surface.

1. Air Quality:

Air quality would temporary be impacted with pollution from exhaust emissions, chemical odors, and dust that would be caused by the motorized equipment used to construct the access roads, well pads, and by the drilling rig that will be used to drill the wells. Dust dissemination would discontinue upon completion of the construction phase of the access roads and well pads. Air pollution from the motorized equipment would discontinue at the completion of the drilling phase of the operations. The winds that frequent the southeastern part of New Mexico generally disperse the odors and emissions. The impacts to air quality would be greatly reduced as the construction and drilling phases are completed.

2. Soil: Impacts on Nonsurfaced roads:

The impact from the construction of non-surfaced access roads would physically disturb 0.5 acres. A nonsurfaced road would have exposed topsoils and substratum soil that would be compacted by overweight vehicular traffic which would minimize some impacts from weathering. The exposed soil on the nonsurfaced road would be susceptible to wind blowing and water erosion and would be impacted by the weathering progression that would occur in the dry, windy, monsoon and other seasonal adversities within a long period in time or for the life of the well. Regular road maintenance on a non-surfaced road would alleviate potential impacts to the access road from wind and water erosion damage. The impact from maintenance on a nonsurfaced road would occur when regular grading of a nonsurfaced road to smooth out any irregularities on the nonsurfaced road would eventually create a trench road with 14 feet or less travelway graded below ground level. The impacts to the vegetation would be minimal when upon reclamation of the nonsurfaced road the soil is not mixed with other soil that is not compatible with vegetation recovery which is the ultimate purpose for nonsurfaced roads.

3. Vegetation:

The construction of the access roads and well pads would remove about 3.45 acres of native vegetation. If the wells are producers, reclamation would not commence until the each individual well is a depleted producer and plugged and abandoned. Vegetation recovery on the access roads and well pads would depend on the life of the wells. Native vegetation would encroach on the well pads over time with only high traffic areas remaining unvegetated. If drilled as a dry holes and plugged, reclamation of the access roads and well pads would immediately follow. Vegetation impacts would be short-term when the access roads and well pads re-vegetate within a few years, and the reclamation of the access roads and well pads are successful.

4. Invasive & Noxious Weeds:

The construction of an access roads and well pads may unintentionally contribute to the establishment and spread of noxious weeds. Noxious weed seed could be carried to and from the project areas by construction equipment, the drilling rig and transport vehicles. The main mechanism for seed dispersion on the roads and well pads is by equipment and vehicles that were previously used and or driven across or through noxious weed infested areas. The potential for the dissemination of invasive and noxious weed seed may be elevated by the use of construction equipment typically contracted out to companies that may be from other geographic areas in the region. Washing and decontaminating the equipment prior to transporting onto and exiting the construction areas would minimize this impact.

Impacts by noxious weeds will be minimized due to requirements for the company to eradicate the weeds upon discovery. Multiple applications may be required to effectively control the identified populations.

5. Ground Water Quality:

The use of a plastic-lined reserve pit would reduce or eliminate seepage of drilling fluid into the soil and eventually reaching groundwater. Spills or produced fluids (e.g., saltwater, oil, and/or condensate in the event of a breach, overflow, or spill from storage tanks) could result in contamination of the soils onsite, or offsite, and may potentially impact groundwater resources in the long term. The casing and cementing requirements imposed on each proposed well would reduce or eliminate the potential for groundwater contamination from drilling muds and other surface sources.

6. Wildlife:

Some small wildlife species may be killed and their dens or nests destroyed during construction of the access roads, well pads, and buried pipeline. The construction of the access roads and well pads could cause fragmentation of wildlife habitat. The short-term negative impact to wildlife would occur during the construction phase of the operations due to noise and habitat destruction. In general, most wildlife species would become habituated to the new facilities. For other wildlife species with a low tolerance to activities, the operations on the well pads would continue to displace wildlife from the areas due to ongoing disturbances such as vehicle traffic and equipment maintenance. The conditions of approval would alleviate most losses of wildlife species, such as; fencing the reserve pits, netting storage tanks, installation or other modifications of cones on separator stacks, and timing stipulations. Upon abandonment of the wells, the areas would revegetate and wildlife would return to previous levels.

7. Range:

There would be some minor disruption of livestock grazing in the pasture, specifically on the well pads, during the construction and drilling phase of the wells. Vehicle traffic would increase in these areas, which may lead to conflicts with livestock.

8. Visual Resources:

Facilities, such as condensate and produced water or oil storage tanks that rise above eight feet, would provide a geometrically strong vertical and horizontal visual contrast in form and line to the characteristic landscape and vegetation, which have flat, horizontal to slightly rolling form and line. The construction of the access roads, well pads and other ancillary facilities would slightly modify the existing area visual resources. The proposed actions are located in an area designated VRM Class IV.

The objective of Class IV is to: "Provide for management activities which require major modification of the existing landscape character...Every attempt, however, should be made to reduce or eliminate activity impacts through careful location, minimal disturbance, and repeating the basic landscape elements."

Through color manipulation, by painting well facilities to blend with the rolling to flat vegetative and/or landform setting with a gray-green to brownish color, the view is expected to favorably blend with the form, line, color and texture of the existing landscape. The flat color Olive Drab from the supplemental environmental colors also closely approximates the brownish color

of the setting. All facilities, including the meter buildings, would be painted this color.

Cumulative adverse visual impacts can be avoided by gradually moving into a more appropriate vegetative/landform setting color schemes.

9. Recreation:

Oil and gas activities would have little or no affect on recreational opportunities within these areas. Large blocks of pubic lands would allow recreationists to use pubic lands and avoid the oil and gas facilities within the proposed areas.

10. Cave/Karst:

While the proposed action is located in the High Potential Karst Area, no surface cave/karst features were observed in the immediate vicinity of the proposed actions.

11. Minority or Low-income Populations or Communities:

The proposed actions would not impact the minority or low-income populations or communities.

B. Alternatives:

1. Relocation Alternative:

The alternative of changing the locations involved in these actions were not analyzed further because no other alternative locations would have significantly fewer impacts than, or has a clear advantage over, the proposed locations.

2. No Action Alternative:

The no action alternative would constitute denial of the applications. This alternative would have no consequential results from the identified environmental impacts. There would, however, be an adverse economic impact to the applicant through the denial of the lessee's right to develop the mineral reserves or through increased costs of accessing those mineral reserves through other means. There have been no significant or unmitigatable impacts identified as a result of this analysis, which would warrant selection of the no action alternative.

C. Mitigation:

The Roswell Field Office; Well Location Map (Exhibit A), Well Drilling Requirements (Exhibit B), Conditions of Approval (Exhibit C), Permanent Resource Road Requirements (Exhibit D) and Cattleguard Diagram A & B (Exhibit E) for the Lookout Federal #3, BURIED PIPELINE STIPULATIONS FOR THE ROSWELL FIELD OFFICE, BLM (Exhibit G for the Lookout Federal #3). Surface Restoration/Reclamation Requirements (Exhibit F for the Lookout Federal #3 & Exhibit E for the Lookout Federal #5), and the special requirements derived from this EA, would be applied to each individual well to minimize the surface disturbance and conserve the surrounding landscape.

D. Cumulative Impacts:

While it is likely that there will be no significant cumulative impact from the proposed actions, continued oil and gas development, and other surface-disturbing activities in these areas, may potentially have negative cumulative impacts on vegetation, soil, water, livestock, wildlife, and visual resources.

V. Consultation and Coordination

An onsite inspection was conducted on the access roads and well pads on 3/22/05. In attendance was Mr. James Schulz Agent for McKay Oil Corporation and Richard Hill, Environmental Protection Specialist, BLM Roswell Field Office. Coordination and

consultation has occurred with the applicant's agent. The comments and suggestions expressed during the onsite consultation have been incorporated into this EA.

Coordination and consultation has occurred with Roswell Field Office's Staff. The comments and suggestions expressed during the analytical review of the proposed actions have been incorporated into this Environmental Assessment. Roswell Field Office's Staff at on-site; Joseph Navarro & David Arthun.

Reviewed by:

Irene Gonzales, Realty Specialist

Date

EXHIBIT B

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WELL DRILLING REQUIREMENTS

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36192

WELL NAME & NO: Lookout "B" Federal #3

QUARTER/QUARTER & FOOTAGE: SW¹/₄SW¹/₄ - 810' FSL & 660' FWL

LOCATION: Section 10, T. 6 S., R. 22 E., NMPM

COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).

B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Well Drilling Requirements.

II. WELL PAD CONSTRUCTION REQUIREMENTS:

A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627 0247.

B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).

C. The holder shall stockpile the topsoil from the surface of the well pad for reclamation purposes. The topsoil on the Lookout "B" Federal #3 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Southeast corner of the well pad, opposite the reserve pit. Upon reclamation of the well pad, the topsoil stockpile shall be redistributed over the disturbed areas. See Well Drilling Requirements - VI. Seeding Requirements - for reclamation of the well pad.

D. Reserve Pit Requirements:

1. The reserve pit shall be constructed 50' X 100' on the North side of the well pad.
2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See Exhibit F – Surface Reclamation/Restoration Requirements.
3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

WELL DRILLING REQUIREMENTS

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4. The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.
5. The reserve pit shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances will the reserve pit be cut to drain drilling muds on the well location.
6. The reserve pit shall not be located in any natural drainage.
7. The reserve pit shall be equipped to deter entry by birds, bats, other wildlife, and livestock, if the reserve pit contains any oil and/or toxic fluids.
8. Drilling muds shall be properly disposed of before the reserve pit is reclaimed. Drilling muds can be allowed to evaporate in the reserve pit or be removed and transported to an authorized disposal site. The reserve pit shall be backfilled when dry.
9. Dumping of junk or trash into the reserve pit is not allowed. Junk or trash shall be removed from within the reserve pit before the reserve pit is reclaimed. Junk or trash shall not be buried in the reserve pit.

E. Federal Mineral Materials Pit Requirements:

1. Caliche, gravel, or other related materials from new or existing pits on Federal mineral estate shall not be taken without prior approval from the authorized officer. Contact Jerry Dutchover at (505) 627 -0236.
2. Payment for any Federal mineral materials that will be used to surface the access road and the well pad is required prior to removal of the mineral materials.
3. Mineral Materials extracted during construction of the reserve pit may be used for development of the pad and access road as needed, for the Lookout "B" Federal #3 gas well only. Removal of any additional material on location must be purchased from

BLM prior to removal of any material.

a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

The well pad shall be surfaced with 6 inches of compacted caliche, gravel, or other approved surfacing material. The well pad shall be surfaced prior to drilling operations. See Permanent Resource Road Requirements - EXHIBIT D - requirement #4, for road surfacing.

G. Cave Requirements:

1. If, during any construction activities any sinkholes or cave openings are discovered, all construction activities shall immediately cease. Contact Larry Bray at (505) 627-0250.
2. The BLM Authorized Officer will, within 24 hours of notification in "A" above, conduct an on-the-ground field inspection for karst. At the field inspection the authorized field inspector will authorize or suggest mitigating measures to lessen the damage to the karst environment. A verbal order to proceed or stop the operation will be issued at that time.

WELL DRILLING REQUIREMENTS

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III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 in sufficient time for a representative to witness:

A. Spudding B. Cementing casing: 8" inch 5½ inch C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.
4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

B. CASING:

1. The 8" inch surface casing shall be set at 950' and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.
2. The minimum required fill of cement behind the 5½ inch intermediate casing is cement shall extend upward a minimum of 500 feet above the uppermost perforation.

C. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8" inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.
3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
 - A. The results of the test shall be reported to the appropriate BLM office.
 - B. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
 - C. Testing must be done in a safe workman-like manner. Hard line connections shall be required.

WELL DRILLING REQUIREMENTS

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IV. ON LEASE WELL REQUIREMENTS:

A. The holder shall post signs identifying the location permitted herein with the requirements contained in Onshore Oil and Gas Order #1 and 43 CFR 3162.6.

B. The following data is required on the well sign that shall be posted in a conspicuous place on the well pad. The sign shall be kept up with current identification and shall be legible for as long as the well is in existence:

Operator Name: McKay Oil Corporation

Well Name & No.: Lookout "B" Federal #3

Lease No.: NM-36192

Footage: 810' FSL & 660' FWL

Location: Section 10, T. 6 S., R. 22 E.

C. UPON ABANDONMENT OF THE WELL, THE SAME INFORMATION SHALL BE INSCRIBED ON THE DRY HOLE MARKER WITH A BEADED WELD.

D. The approval of the APD does not in any way imply or grant approval of any on-lease, off-lease, or off-unit action(s). It is the responsibility of the holder to obtain other approval(s) such as rights-of-way from the Roswell Field Office or other agencies, including private surface landowner(s).

E. All vehicles, including caterpillar track-type tractors, motor graders, off-highway trucks and any other type of motorized equipment that is used in the construction of the access road and well pad shall be confined to the area(s) herein approved. The drilling rig that is used to drill the well shall also be confined to the approved area(s).

F. Containment Structure Requirement:

1. A containment structure or earthen dike shall be constructed and maintained around all storage facilities/batteries. The containment structure or earthen dike shall surround the storage facilities/batteries.
2. The containment structure or earthen dike shall be constructed two (2) feet high around the facilities/batteries (the containment structure or earthen dike can be constructed higher than the two (2) feet high minimum).
3. The perimeter of the containment structure or earthen dike can be constructed substantial larger for greater holding capacity of the contents of the largest tank.

4. The containment structure or earthen dike shall be constructed so that in case of a spill the structure can contain the entire contents of the largest tank, plus 24 hour production, within the containment structure or earthen dike, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

WELL DRILLING REQUIREMENTS

5 of 5 pages

G. Painting Requirement:

All above-ground structures (e.g.: meter houses, tanks, above ground pipelines, and related appurtenance, etc.) not subject to safety requirements shall be painted by the holder to blend with the natural color of the landscape. The paint used shall be a color which simulates "Standard Environmental Colors" designated by the Rocky Mountain Five-State Interagency Committee. The color selected for painting all the well facilities is Olive Drab from the supplemental environmental Color Chart Number 18-0622 TPX.

H. Fence Requirement:

The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair impacted improvements to at least their former state. On private surface the holder shall contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates shall be allowed unless approved by the Authorized Officer.

I. Open-vent Exhaust Stack Requirements:

1. All open-vent exhaust stacks associated with heater-treater, separators and dehydrator units shall be modified to prevent birds and bats from entering them and to the extent practical to discourage perching and nesting.
2. New production equipment installed on federal leases after November 1st, 1993, shall have the open-vent exhaust stacks constructed to prevent the entry of birds and bats and to the extent practical, to discourage perching, and nesting.

V. Invasive and Noxious Weeds Requirement:

A. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipelines, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

B. The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad and resulting well are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

VI. SPECIAL REQUIREMENT(S): NONE

EXHIBIT C

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CONDITIONS OF APPROVAL

OPERATOR: McKay Oil Corporation
LEASE NO: NM-36192
WELL NAME & NO.: Lookout "B" Federal #3
LOCATION: Section 10, T. 6 S., R. 22 E., N.M.P.M.
QUARTER/QUARTER & FOOTAGE: SW¹/₄SW¹/₄ - 810' FSL & 660' FWL
COUNTY: Chaves County, New Mexico

GENERAL CONDITIONS OF APPROVAL:

1. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Conditions Of Approval.
2. The holder shall indemnify the United States against any liability for damage to life or property arising from occupancy or use of public lands under this authorization.
3. The holder shall have surface use approval prior to any construction work on change(s) or modification(s) to the access road and/or well pad. The holder shall submit (Form 3160 5), Sundry Notice and Report On Wells, an original plus one (1) copy to the Roswell Field Office, stating the basis for any changes to previously approved plans. Prior to any revised construction the holder shall have an approved Sundry Notice and Report On Wells or written authorization to proceed with the change in plans ratified by the Authorized Officer.
4. Weed Control:
 - A. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipelines, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

CONDITIONS OF APPROVAL

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- B. The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad and resulting well are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

5. Hazardous Substances:

- a. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act Of 1976, as amended (15 U.S.C. 2601, et. seg.) with regard to any toxic substances that are used, generated by or stored on the project/pipeline route or on facilities authorized. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193). Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.
- b. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substances or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et. seg. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et. seg.) on this project/pipeline (unless the release or threatened release is wholly unrelated to the holder's activity on the pipeline). This agreement applies without regard to whether a release is caused by the operator, its agent, or unrelated third parties.

6. Undesirable Events:

If, during any phase of the construction, operation, maintenance, or termination of the authorization, any oil or other pollutants, should be discharged, and impacting Federal land, the control and total removal, disposal, and cleaning up of such oil or other pollutants, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal land, or to repair all damages to Federal lands resulting therefrom, the Authorized Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any liability or responsibility.

CONDITIONS OF APPROVAL

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7. Archaeological, Paleontology, and Historical Sites:

- a. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the Authorized Officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder shall be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the Authorized Officer after consulting with the holder.
- b. The holder is hereby obligated to comply with procedures established in the Native American Graves Protection and Repatriation Act (NAGPRA) to protect such cultural items as human remains, associated funerary objects, sacred objects, and objects of cultural patrimony discovered inadvertently during the course of project implementation. In the event that any of the cultural items listed above are discovered during the course of the project work, the holder shall immediately halt the disturbance and contact the BLM within 24 hours for instructions. The holder or initiator of any project shall be held responsible for protecting, evaluating, reporting, excavating, treating, and disposing of these cultural items according to the procedures established by the BLM in consultation with Indian Tribes. Any unauthorized collection or disturbance of cultural resources may result in a shutdown order by the Authorized Officer.

8. Sanitation:

The holder shall be responsible for maintaining the site in a sanitary condition at all times; waste materials shall be disposed of promptly at an appropriate waste disposal site. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes, and equipment.

9. Open-top Tanks: Any open-top tank containing oil and/or toxic fluids shall be covered with netting or equipped to prevent birds, bats, and other wildlife from entering the open-top tank.

10. Other: None

EXHIBIT D

1 of 9 pages

PERMANENT RESOURCE ROAD REQUIREMENTS

Operator: McKay Oil Corporation

BLM Serial Number: NM-36192

Well Name & NO.: Lookout "B" Federal #3

Location: Section 10, T. 6 S., R. 22 E.

810' FSL & 660' FWL, Chaves County, N.M.

The holder agrees to comply with the following requirements:

1. GENERAL REQUIREMENTS:

A. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Permanent Resource Road Requirements.

B. The holder shall minimize any disturbance to structures on public domain surface. Damages caused to any structure during road construction operations shall be promptly repaired by the holder. Functional use of any structure shall be maintained at all times. The holder shall make a documented good faith effort to contact the owner prior to disturbing any structure.

C. When necessary to pass through an existing fence line, the fence shall be braced on both sides of the passageway prior to cutting and the fence shall be promptly repaired to at least it's former state or to a higher standard than it was previously constructed.

D. A professional engineer shall design the access road if the road grade exceeds 10 percent slope.

2. INGRESS AND EGRESS:

The access road shall be constructed to access the well pad on the Southwest corner of the well pad to comply with the planned access road route.

3. ROAD TRAVELWAY WIDTH:

On a nonsurfaced road the travelway of the road shall not exceed the construction of a 14 foot wide road.

PERMANENT RESOURCE ROAD REQUIREMENTS

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4. NON-SURFACING:

A. Surfacing material is not required on the new access road travelway. The Holder has the option to surface the access road if the Holder considers it necessary. Should the Holder elect to surface the access road, the Holder shall submit a Sundry Notices And Reports On Wells requesting approval for a change in the conditions of approval to surface the access road. The Holder shall obtain written approval from the Authorized Officer prior to surfacing (Call Mike McGee at 505-627-0340). The surfacing material, depth and type, will be determined at the time of approval.

B. The nonsurfaced access road shall have a travelway which creates the smallest possible surface disturbance and does not exceed 14 feet in width. No drive-arounds with the exception of turnouts, are allowed outside the travelway.

C. The Authorized Officer reserves the right to require surfacing of the access road at any time if deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

D. If the new access road is not surfaced, no improvements shall be made on the access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

E. The holder shall surface and perform maintenance on all pre-existing surfaced access road(s) on federal surface prior to drilling operations. Surfacing is required on all other federal pre-existing surfaced roads beginning from the dedicated road (county road and/or state highway) to the beginning of the new access road construction.

5. CROWNING AND DITCHING (On Surfaced Roads Only):

Crowning with materials on site and ditching on one side of the road, on the uphill side, shall be required. The road cross section shall conform to the cross section diagrams in Figure 1 (attached page 6). Where conditions dictate, ditching shall be required on both sides of the road. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road).

6. DRAINAGE:

A. Drainage control shall be ensured over the entire road through the construction of ditches, sidehill outslowing and inslaping, lead off ditches, culvert installation, and low water crossings.

B. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

PERMANENT RESOURCE ROAD REQUIREMENTS

3 of 9 pages

PERCENT SLOPE AND SPACING INTERVALS FOR LEAD-OFF DITCHES:

Percent slope	Spacing interval
0 4%	150' 350'
4 6%	125' 250'
6 8%	100' 200'
8 10%	75' 150'

CROSS SECTION OF TYPICAL LEAD-OFF DITCH

1' MINIMUM DEPTH

BERM

NATURAL GROUND SURFACE

C. A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

D. On road slopes exceeding 2%, water flow shall drain water into an adjacent lead-off ditch. Water flow drainage location and spacing shall be determined by the following formula:

FORMULA FOR SPACING INTERVAL OF LEAD-OFF DITCHES:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Ex. 4% slope: $\text{spacing interval} = \frac{400}{4} + 100 = 200 \text{ feet}$

7. CULVERT INSTALLATION: No culverts are required on this road.

ONE (1) CULVERT SHALL BE INSTALLED AT THE DEEP WATERWAY CHANNEL FLOW CROSSING IN THE XX¼XX¼ OF SECTION - T. S. - R. E. (SEE EXHIBIT A - LOCATION MAP).

Culvert pipes shall be used where ravines, arroyo gullies, and deep waterway channel flows are crossed by the access road construction route. The culvert(s) shall not be less than XX inches in diameter (minimum 18 inch culvert). The location for the culvert installation is designated on the attached map - EXHIBIT A. (A culvert pipe installation diagram shall be attached to this requirement when a culvert is required to be installed, see EXHIBIT - X).

PERMANENT RESOURCE ROAD REQUIREMENTS

4 of 9 pages

8. TURNOUTS:

Vehicle turnouts shall be constructed on all single lane roads (unless the Authorized Officer determines that the turnouts are not required). Turnouts shall be intervisible and shall be constructed on all blind curves with additional turnouts as needed to keep spacing below 1000 feet. Turnouts shall conform to the following diagram:

STANDARD TURNOUT - PLAN VIEW

-----CENTERLINE OF ROAD TRAVELWAY-----

---10---

25' ????????????50'????? 25'

9. CATTLEGUARDS:

A. ONE (1) CATTLEGUARD SHALL BE INSTALLED AT THE FENCE CROSSING IN THE 1/64 OF SECTION 10 - T. 6 S. - R. 22 E. (SEE EXHIBIT A - LOCATION MAP).

B. A cattleguard installation diagram shall be attached to this stipulation when a cattleguard is required to be installed - see EXHIBIT E - DIAGRAM A & B).

C. The existing cattleguard(s) on the access road shall be replaced if they are damaged from heavy vehicular traffic use and the Authorized Officer determines that a new cattleguard shall be installed where the existing in place cattleguard(s) have deteriorated beyond practical use. The holder shall be held responsible for the condition of the existing in place cattleguard(s) that are utilized for vehicular traffic use on lease operations by the holder.

D. Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H 20, although AASHTO U 80 rated grids shall be required where heavy loads, (exceeding H 20 loading,) are anticipated. (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16 foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

10. MAINTENANCE:

A. The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, cattleguard maintenance, surfacing, and weed control.

B. The holder shall cooperate with other authorized users in maintenance of the road(s). Failure of the holder to share maintenance costs in dollars, equipment, materials, and manpower proportionate to the holders use with other authorized users may be adequate grounds to terminate the road use. The determination as to whether maintenance expenditures have been withheld by the holder and the decision to terminate the road use shall be at the discretion of the Authorized Officer. Upon request, the Authorized Officer shall be provided with copies of any maintenance agreements entered into by the holder.

PERMANENT RESOURCE ROAD REQUIREMENTS

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11. PUBLIC ACCESS:

A Public access on this road shall not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands shall not be locked or closed to public use unless closure is absolutely necessary and is authorized in writing by the Authorized Officer.

12. ROAD REHABILITATION REQUIREMENTS:

A. See -SURFACE RECLAMATION/RESTORATION REQUIREMENTS - EXHIBIT F.

13. SPECIAL REQUIREMENT(S): NONE

EXHIBIT G

Page 1 of 6

ROSWELL FIELD OFFICE -BLM

BLM Serial Number: 36192

Company Name: McKay Oil Corporation

Well Name and Number: Lookout "B" Federal #3

Location: Section 10, T. 6 S., R. 22 E., 810' FSL & 660' FWL,

Pipeline tie-in point SW¹/₄NW¹/₄SW¹/₄ of Section 10, T. 6 S., R. 22 E.,
Chaves County, N.M.

BURIED PIPELINE STIPULATIONS FOR THE ROSWELL FIELD OFFICE, BLM.

A. THE APD AND/OR THE SUNDRY NOTICE WAS USED FOR THE ON-LEASE BURIED PIPELINE CONSTRUCTION.

1. The APD and/or Sundry Notice And Report On Wells can act, to the extent possible, as an application for the on-lease construction of the buried pipeline on Federal surface lands. In combination with the approved APD, the following standard terms and conditions are hereby attached to the APD/SN on-lease authorization.

B. The holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer, BLM.

1. The BLM shall administer compliance and monitor construction of the pipeline. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the pipeline. Roswell Field Office number (505) 627 0247.

2. PIPELINE CONSTRUCTION:

A.) The entire length (1188.7 feet) of pipeline shall be buried in a trench 36 inches deep and 46 inches deep under all existing access roads.

B.) The 2? inch steel pipeline shall be buried across country until it reaches the tie-in point(SEE EXHIBIT A).

C.) The holder shall consult with the Authorized Officer if the depth cannot be accomplished due to rock outcropping, or if the soils are not deep enough.

D.) The operations shall be contained within the perimeters of the archaeological surveyed areas.

Exhibit G Lookout "B" Federal #3 NM-36192 Page 2 of 6

3. The holder shall conduct all activities associated with the construction, operation, and removal of the pipeline within the authorized limits of the pipeline corridor, not to exceed 20 feet. The holder shall consult with the Authorized Officer prior to utilizing more surface then the allowable limits of the pipeline corridor or for approval of any changes that are made to the pipeline route.

4. Clearing and/or blading of all vegetation shall be allowed. Clearing is defined as the removal of brush while leaving ground vegetation (grasses, weeds, etc.) intact. Clearing is best accomplished by holding the blade 4 to 6 inches above the ground surface to reap the vegetation. Blading is defined as the complete removal of brush and ground vegetation. Where blading and/or clearing is allowed, the maximum surface disturbance width of these operations shall not exceed 20 feet.

5. The pipeline shall be buried under all roads. The holder shall bury the pipeline 48 inches deep and 30 feet across all road crossings. The pipeline shall be buried 48 inches deep in order for the buried pipeline to be covered with a layer of soil 45 inches in depth between the top of the pipeline and the road surface level. The width of maximum disturbance on all roads is 30 feet and in order to secure that the buried pipeline is protected from maintenance and/or renovation work on the roads, the holder is required to start and end construction of the buried pipeline outside the perimeters of the road width maximum disturbance width. The holder shall consult with the Authorized Officer if the depth cannot be accomplished due to rock outcropping, or if the soils are not deep enough.

6. The approval of this APD/SN for pipeline construction does not in any way imply or approve any other on-lease, off-lease, or off-unit action(s). It is the responsibility of the holder to obtain other approval(s) such as rights-of-way from the Roswell Field Office or other agencies, including private surface landowner(s).

7. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this authorization.

8. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, et. seq.) with regard to any toxic substances that are used, generated by, or stored on the pipeline corridor. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.

9. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et. seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et. seq.) on the pipeline corridor (unless the release or threatened release is wholly unrelated to the holder's activity on the pipeline corridor). This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

Exhibit G Lookout “B” Federal #3 NM-36192 Page 3 of 6

10. If, during any phase of the construction, operation, maintenance, or termination of the pipeline, any gas, or other pollutant should be discharged, impacting Federal lands, the control and total removal, disposal, and cleaning up of such pollutants, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on, or affecting Federal lands, or to repair all damages to Federal lands resulting therefrom, the Authorized Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any liability or responsibility.

11. The holder shall minimize disturbance to existing fences and other improvements or facilities on public lands. When necessary to pass through a fence line, the fence will be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer. The holder is required to promptly repair impacted improvements or facilities to at least their former state. The holder shall contact the owner(s) of any improvements or facilities prior to disturbing them.

12. Vegetation, soil, and rocks left as a result of the pipeline construction, or maintenance activity will be randomly scattered over the project area and will not be left in rows, piles, or berms, unless otherwise approved by the Authorized Officer. An earthen berm is approved to be left over the ditch line to allow for the trench settling back to grade.

13. In those areas where erosion control structures are required to stabilize soil conditions, the holder shall install such structures as are suitable for the specific soil conditions being encountered and which are in accordance with sound management practices. Any earth work not specifically granted by this authorization shall require prior approval by the Authorized Officer.

14. The holder shall seed all surface disturbed by the pipeline construction activities. Seeding is required on the disturbed areas and the seed mixture was determined by the Roswell Field Office for the Desired Plant Community on this pipeline project.

A. Desired Plant Community seed mixture to be planted in pounds of pure live seed per acre:

ECTOR VERY COBBLY LOAM, 3-15% SLOPE (Very Shallow, CP-4 Ecological Site)

AND

ECTOR VERY COBBLY LOAM, DRY, 3-15% SLOPE (Shallow SD-3 Ecological Site)

Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Black grama, var. Nogal	(<i>Bouteloua eriopoda</i>)	2.00 Lbs.
Blue grama, var. Lovington	(<i>Bouteloua gracilis</i>)	1.00 Lb.
Sideoats grama, var. Vaughn or El Reno	(<i>Bouteloua curtipendula</i>)	2.00 Lbs.

New Mexico Feathergrass (*Stipa neomexicana*) 1.00 Lb.
 Exhibit G Lookout "B" Federal #3 NM-36192 Page 4 of 6

Desert or Scarlet (Sphaeralcea ambigua) 1.00 Lb.
 Globemallow or (*S. coccinea*)
 Buckwheat (*Eriogonum* spp.) 1.00 Lb.
 TOTAL POUNDS PURE LIVE SEED PER ACRE 8.00 Lbs.

If one species is not available, increase ALL others proportionately. The seed mixture shall be Certified Weed Free Seed. A minimum of 4 species is required, including 1 forb species.

B. The recommended time to seed is from June 15th through September 15th. The optimum seeding time is in mid-July. Successive seeding should be done either late in the fall (Sept. 15th Nov. 15th, before freeze up) or early as possible the following spring to take advantage of available ground moisture. However, the holder may seed immediately after completing the surface disturbing activities.

C. The holder shall be responsible for the establishment of vegetation on the pipeline route. Evaluation of vegetation growth will not be made before the completion of the first growing season after seeding. The Authorized Officer reserves the right to require reseeding at a specific time if seed does not germinate after one growing season. Waiver of this requirement would be considered if diligent attempts to revegetate the disturbed areas have failed and the Authorized Officer determines that further attempts to replant the disturbed area is futile.

15. All above-ground structures (e.g.: meter houses, above ground pipelines, and related appurtenance, etc.) not subject to safety requirements shall be painted by the holder to blend with the natural color of the landscape. The paint used shall be a color which simulates "Standard Environmental Colors" designated by the Rocky Mountain Five-State Interagency Committee. The color selected for this project is Olive Drab from the supplemental environmental Color Chart Number 18-0622 TPX.

16. The holder shall post signs designating a pipeline crossing at the following locations: the points of origin and completion, or entry to and exit from public lands, at all road crossings. These signs shall be posted in a permanent, conspicuous manner, and shall be maintained in a legible condition until the pipeline no longer services the well and is removed.

17. The holder shall not use the pipeline corridor as a road except during periodic routine maintenance work as determined necessary by the Authorized Officer. The pipeline corridor shall not be used for any other purposes than for what it was hereby approved. The holder shall consult with the Authorized Officer if the disturbed areas are used for other reasons than for maintenance purposes. The holder shall take whatever steps are necessary to ensure that the pipeline corridor is not used as a roadway.

18. Any cultural and/or paleontological resource (i.e.: historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on Federal land shall be immediately reported to the Authorized Officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions that shall be taken to prevent the loss of significant cultural or scientific values. The holder shall be responsible for the cost of evaluation of any cultural and/or paleontological resources that are discovered. Any decision as to the proper mitigation measures shall be made by the Authorized Officer after consultation with the holder.

Exhibit G Lookout "B" Federal #3 NM-36192 Page 5 of 6

19. The holder is hereby obligated to comply with procedures established in the Native American Graves Protection and Repatriation Act (NAGPRA) to protect such cultural items as human remains, associated funerary objects, sacred objects, and objects of cultural patrimony discovered inadvertently during the course of project implementation. In the event that any of the cultural items listed above are discovered during the course of the project work, the holder shall immediately halt the disturbance

and contact the BLM within 24 hours for instructions. The holder or initiator of any project shall be held responsible for protecting, evaluating, reporting, excavating, treating, and disposing of these cultural items according to the procedures established by the BLM in consultation with Indian Tribes. Any unauthorized collection or disturbance of cultural resources may result in a shutdown order by the Authorized Officer.

20. Special Stipulations: **NONE**

EXHIBIT F

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SURFACE RECLAMATION/RESTORATION REQUIREMENTS

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36192

WELL NAME & NO: Lookout “B” Federal #3

QUARTER/QUARTER & FOOTAGE: SW¹/₄SW¹/₄ - 810' FSL & 660' FWL

LOCATION: Section 10, T. 6 S., R. 22 E., NMPM

COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).

B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who administers the reclamation requirements.

C. The holder shall comply with all the surface reclamation/restoration required by the Authorized Officer pertaining to the reclamation/restoration of the access road and well pad.

II. FORM 3160 5, SUNDRY NOTICES AND REPORTS ON WELLS:

A. The holder shall adhere to the following:

1. If the well is not drilled, please notify the BLM so that an official release can be approved.

2. Downhole requirement: If the well is a dry hole and will be plugged, approval of the proposed plugging program may be obtained orally. However, oral approval must be confirmed in writing by immediately filing a Sundry Notice And Report On Wells (Form 3160 5) "Notice of Intention to Abandon", an original and five (5) copies shall be submitted to the Roswell Field Office. The report should show the total depth reached, the reason for plugging, and the proposed intervals, by depths, where plugs are to be placed, type of plug, type of plugging mud, etc..

3. The same notification shall be required of the Holder for the reclamation/restoration of the access road and well pad. The Holder shall initially report surface reclamation/restoration of the access road and well pad concurrently with the Downhole requirement. A Sundry Notice And Report On Wells (Form 3160 5) "Notice of Intention to Abandon", an original and five (5) copies shall be submitted to the Roswell Field Office. Upon receipt of the "NOI" the Authorized Officer shall provide the holder with the specific requirements for the reclamation/restoration of the access road and well pad.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

2 of 5 pages

4. Subsequent Report Of Abandonment: The holder shall submit a second report on Form 3160 5, Sundry Notices and Reports On Wells, an original and five (5) copies shall be submitted to the Roswell Field Office, pertaining to the reclamation/restoration of the access road and well pad. The holder shall demonstrate that the surface reclamation/restoration requirements have been complied with. The holder shall specify that the reclamation work accomplished the restoration of the disturbed areas to as near the original surface condition the land was in prior to construction of the access road and well pad.

5. Final Abandonment Notice: The holder shall submit a third report on Form 3160 5, Sundry Notices and Reports On Wells, an original and five (5) copies shall be submitted to the Roswell Field Office, that shall ascertain that all surface reclamation/restoration requirements have finally been completed and that the access road and well pad are ready for final inspection. The holder shall specify that the surface has been reclaimed in accordance with federal regulations and request for the final approval of the access road and well pad.

III. BOND LIABILITY:

A. Liability under bond shall be retained until all surface reclamation/restoration of the access road and well pad has been completely reclaimed to the satisfaction of the Authorized Officer.

IV. ACCESS ROAD AND WELL PAD RECLAMATION REQUIREMENTS:

1. If the well is completed, all areas of the well pad not necessary for operations shall be reclaimed to resemble the original contours of the surrounding terrain.
2. Upon abandonment of the well, cut-and-fill slopes shall be re-contoured and reduced to a slope of 3:1 or less. The road shall be recontoured to as near the original topography, as possible.
3. Upon abandonment of the well, all production equipment shall be removed from the well pad and properly disposed of.
4. Upon abandonment the access road and well pad shall be ripped a maximum of 16 inches deep (Ripping depth will be determined by depth of soil shown in the Soil Conservation Service Survey Handbook).
5. All culverts and other road structures (e.g.: cattleguard, H-Braces, signs, etc.) shall be removed and properly disposed of.
6. All over-burden material shall be replaced in the cut areas, ditches, lead-off ditches, and any other excavated earthwork shall be back filled.
7. An earthen berm shall be constructed at the entrance of the road to prevent vehicular traffic on the reclaimed road.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

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V. Reserve Pit Reclamation Requirements:

- A. Upon reclamation of the reserve pit, the impervious, reinforced, synthetic or fabricated 12 mil in thickness liner shall be used to encapsulate the reserve pit cuttings.
- B. The dried cuttings in the reserve pit shall be buried a minimum depth of three (3) feet below ground level.
- C. The reserve pit area shall be covered with a three (3) feet minimum cap of clean soil or like material that is capable of supporting native plant growth. Once the reserve pit contents have been capped, the cap shall not be disturbed without NMOCD approval.
- D. Should the cuttings in the reserve pit not meet the three (3) feet below ground level depth, the excess contents shall be removed from the reserve pit until the required minimum depth of three (3) feet below ground level requirement has been met. The excess cuttings shall be removed from the well location and shall be properly disposed of at an authorized disposal site.
- E. Contact Jerry Dutchover, at (505) 627-0236, three days before commencing the reserve pit reclamation.

VI. SEEDING REQUIREMENTS:

- A. The stockpile of topsoil shall be spread over the well pad to cultivate a seed bed. The holder shall not contaminate the topsoil stockpile with the reserve pit muds and/or cuttings.
- B. The reclaimed area(s) shall be seeded with the seed mixture that was determined by the Roswell Field Office for the Desired Plant Community on this well site.
- C. The same seed mixture shall be used for the reclamation of the access road and well pad.
- D. The planting of the seed shall be done in accordance with the following seeding requirements:
 1. The topsoil soil shall be plowed under with soil turning equipment and the plowed surface shall be disked before seeding.

Seed shall be planted using a drill equipped planter with a depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture shall be evenly and uniformly planted over the disturbed area. Smaller/heavier seed has a tendency to drop to the bottom of the drill and is planted first; the holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed shall be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre noted below are to be doubled.

2. The holder shall seed all the disturbed areas with the DPC seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed per acre, (Pounds of pure live seed per acre: pounds of seed X percent purity X percent germination = pounds pure live seed). There shall be no primary or secondary noxious weeds in the seed mixture.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

4 of 5 pages

In accordance with State law(s) the seed should be tested for purity and viability within nine (9) months prior to sell. Commercial seed shall be either certified or registered seed. The seed mixture container shall be tagged in accordance with State law(s) and the certified seed tag shall be made available for inspection by the Authorized Officer.

3. Desired Plant Community seed mixture to be planted in pounds of pure live seed per acre:

ECTOR VERY COBBLY LOAM, 3-15% SLOPE (Very Shallow, CP-4 Ecological Site)

AND

ECTOR VERY COBBLY LOAM, DRY, 3-15% SLOPE (Shallow SD-3 Ecological Site)

Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Black grama, var. Nogal	(<i>Bouteloua eriopoda</i>)	2.00 Lbs.
Blue grama, var. Lovington	(<i>Bouteloua gracilis</i>)	1.00 Lb.
Sideoats grama, var. Vaughn or El Reno	(<i>Bouteloua curtipendula</i>)	2.00 Lbs.
New Mexico Feathergrass	(<i>Stipa neomexicana</i>)	1.00 Lb.
Desert or Scarlet Globemallow	(<i>Sphaeralcea ambigua</i>) or (<i>S. coccinea</i>)	1.00 Lb.
Buckwheat	(<i>Eriogonum</i> spp.)	1.00 Lb.
TOTAL POUNDS PURE LIVE SEED PER ACRE		8.00 Lbs.

4. If one species is not available, increase ALL others proportionately. The seed mixture shall be certified weed free seed. A minimum of 4 species is required, including 1 forb species.

E. The recommended time to seed is from June 15th through September 15th. The optimum seeding time is in mid-July. Successive seeding should be done either late in the fall (Sept. 15th Nov. 15th, before freeze up) or early as possible the following spring to take advantage of available ground moisture. However, the holder may seed immediately after completing surface abandonment requirements.

F. The seeding of the disturbed areas shall be repeated until a vegetative thicket is established on the access road and well pad. The Authorized Officer shall make the determination when the regrowth on the disturbed areas is satisfactory.

G. The holder shall be responsible for the establishment of vegetation on the access road and well pad. Evaluation of vegetation

growth will not be made before the completion of the first growing season after seeding. The Authorized Officer reserves the right to require reseeding at a specific time if seed does not germinate after one growing season. Waiver of this requirement would be considered if diligent attempts to revegetate the disturbed areas have failed and the Authorized Officer determines that further attempts to replant the access road and well pad are futile.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

5 of 5 pages

H. Contact Mr. Richard Hill at (505) 627-0247 to witness the seeding operations, two (2) days prior to seeding the disturbed areas.

I. Invasive and Noxious Weeds Requirement:

1. The holder shall be held responsible if noxious weeds become established within the reclaimed areas. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the road, pad, associated pipeline corridor/routes, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.
2. The holder shall insure that the equipment and or vehicles that will be used to reclaim the access roads and well pad are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to reclamation of the access roads and well pad.

EXHIBIT B

1 of 5 pages

WELL DRILLING REQUIREMENTS

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36192

WELL NAME & NO: Lookout "B" Federal #5

QUARTER/QUARTER & FOOTAGE: SE¼SE¼ - 1310' FSL & 400' FEL

LOCATION: Section 9, T. 6 S., R. 22 E., NMPM

COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).

B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Well Drilling Requirements.

II. WELL PAD CONSTRUCTION REQUIREMENTS:

A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627 0247.

B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).

C. The holder shall stockpile the topsoil from the surface of the well pad for reclamation purposes. The topsoil on the Lookout "B" Federal #5 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Northeast corner of the well pad, opposite the reserve pit. Upon reclamation of the well pad, the topsoil stockpile shall be redistributed over the disturbed areas. See Well Drilling Requirements - VI. Seeding Requirements - for reclamation of the well pad.

D. Reserve Pit Requirements:

2. The reserve pit shall be constructed 50' X 100' on the South side of the well pad.

2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See Exhibit E – Surface Reclamation/Restoration Requirements.

3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

WELL DRILLING REQUIREMENTS

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4. The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.

5. The reserve pit shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances will the reserve pit be cut to drain drilling muds on the well location.

6. The reserve pit shall not be located in any natural drainage.
7. The reserve pit shall be equipped to deter entry by birds, bats, other wildlife, and livestock, if the reserve pit contains any oil and/or toxic fluids.
8. Drilling muds shall be properly disposed of before the reserve pit is reclaimed. Drilling muds can be allowed to evaporate in the reserve pit or be removed and transported to an authorized disposal site. The reserve pit shall be backfilled when dry.
9. Dumping of junk or trash into the reserve pit is not allowed. Junk or trash shall be removed from within the reserve pit before the reserve pit is reclaimed. Junk or trash shall not be buried in the reserve pit.

E. Federal Mineral Materials Pit Requirements:

3. Caliche, gravel, or other related materials from new or existing pits on Federal mineral estate shall not be taken without prior approval from the authorized officer. Contact Jerry Dutchover at (505) 627 -0236.
4. Payment for any Federal mineral materials that will be used to surface the access road and the well pad is required prior to removal of the mineral materials.
3. Mineral Materials extracted during construction of the reserve pit may be used for development of the pad and access road as needed, for the Lookout "B" Federal #5 gas well only. Removal of any additional material on location must be purchased from BLM prior to removal of any material.
- a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

The well pad shall be surfaced with 6 inches of compacted caliche, gravel, or other approved surfacing material. The well pad shall be surfaced prior to drilling operations. See Permanent Resource Road Requirements - EXHIBIT D - requirement #4, for road surfacing.

G. Cave Requirements:

1. If, during any construction activities any sinkholes or cave openings are discovered, all construction activities shall immediately cease. Contact Larry Bray at (505) 627-0250.
2. The BLM Authorized Officer will, within 24 hours of notification in "A" above, conduct an on-the-ground field inspection for karst. At the field inspection the authorized field inspector will authorize or suggest mitigating measures to lessen the damage to the karst environment. A verbal order to proceed or stop the operation will be issued at that time.

WELL DRILLING REQUIREMENTS

3 of 5 pages

III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 in sufficient time for a representative to witness:

A. Spudding B. Cementing casing: 8? inch 5½ inch C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

B. CASING:

1. The 8" inch surface casing shall be set at 950' and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 5½ inch intermediate casing is cement shall extend upward a minimum of 500 feet above the uppermost perforation.

C. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8" inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

D. The results of the test shall be reported to the appropriate BLM office.

E. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

F. Testing must be done in a safe workman-like manner. Hard line connections shall be required.

WELL DRILLING REQUIREMENTS

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IV. ON LEASE WELL REQUIREMENTS:

A. The holder shall post signs identifying the location permitted herein with the requirements contained in Onshore Oil and Gas Order #1 and 43 CFR 3162.6.

B. The following data is required on the well sign that shall be posted in a conspicuous place on the well pad. The sign shall be kept up with current identification and shall be legible for as long as the well is in existence:

Operator Name: McKay Oil Corporation

Well Name & No.: Lookout "B" Federal #5

Lease No.: NM-36192

Footage: 1310' FSL & 400' FEL

Location: Section 9, T. 6 S., R. 22 E.

C. UPON ABANDONMENT OF THE WELL, THE SAME INFORMATION SHALL BE INSCRIBED ON THE DRY HOLE

MARKER WITH A BEADED WELD.

D. The approval of the APD does not in any way imply or grant approval of any on-lease, off-lease, or off-unit action(s). It is the responsibility of the holder to obtain other approval(s) such as rights-of-way from the Roswell Field Office or other agencies, including private surface landowner(s).

E. All vehicles, including caterpillar track-type tractors, motor graders, off-highway trucks and any other type of motorized equipment that is used in the construction of the access road and well pad shall be confined to the area(s) herein approved. The drilling rig that is used to drill the well shall also be confined to the approved area(s).

F. Containment Structure Requirement:

1. A containment structure or earthen dike shall be constructed and maintained around all storage facilities/batteries. The containment structure or earthen dike shall surround the storage facilities/batteries.
2. The containment structure or earthen dike shall be constructed two (2) feet high around the facilities/batteries (the containment structure or earthen dike can be constructed higher than the two (2) feet high minimum).
3. The perimeter of the containment structure or earthen dike can be constructed substantial larger for greater holding capacity of the contents of the largest tank.
4. The containment structure or earthen dike shall be constructed so that in case of a spill the structure can contain the entire contents of the largest tank, plus 24 hour production, within the containment structure or earthen dike, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

WELL DRILLING REQUIREMENTS

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G. Painting Requirement:

All above-ground structures (e.g.: meter houses, tanks, above ground pipelines, and related appurtenance, etc.) not subject to safety requirements shall be painted by the holder to blend with the natural color of the landscape. The paint used shall be a color which simulates "Standard Environmental Colors" designated by the Rocky Mountain Five-State Interagency Committee. The color selected for painting all the well facilities is Olive Drab from the supplemental environmental Color Chart Number 18-0622 TPX.

H. Fence Requirement:

The holder shall minimize disturbance to existing fences and other improvements on public land. The holder is required to promptly repair impacted improvements to at least their former state. On private surface the holder shall contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates shall be allowed unless approved by the Authorized Officer.

I. Open-vent Exhaust Stack Requirements:

1. All open-vent exhaust stacks associated with heater-treater, separators and dehydrator units shall be modified to prevent birds and bats from entering them and to the extent practical to discourage perching and nesting.
2. New production equipment installed on federal leases after November 1st, 1993, shall have the open-vent exhaust stacks constructed to prevent the entry of birds and bats and to the extent practical, to discourage perching, and nesting.

V. Invasive and Noxious Weeds Requirement:

A. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipelines, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

B. The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad and resulting well are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

VI. SPECIAL REQUIREMENT(S): NONE

EXHIBIT C

1 of 3 pages

CONDITIONS OF APPROVAL

OPERATOR: McKay Oil Corporation

LEASE NO: NM-36192

WELL NAME & NO.: Lookout "B" Federal #5

LOCATION: Section 9, T. 6 S., R. 22 E., N.M.P.M.

QUARTER/QUARTER & FOOTAGE: SE¹/₄SE¹/₄ - 1310' FSL & 400' FEL

COUNTY: Chaves County, New Mexico

GENERAL CONDITIONS OF APPROVAL:

1. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Conditions Of Approval.
2. The holder shall indemnify the United States against any liability for damage to life or property arising from occupancy or use of public lands under this authorization.
3. The holder shall have surface use approval prior to any construction work on change(s) or modification(s) to the access road and/or well pad. The holder shall submit (Form 3160 5), Sundry Notice and Report On Wells, an original plus one (1) copy to the Roswell Field Office, stating the basis for any changes to previously approved plans. Prior to any revised construction the holder shall have an approved Sundry Notice and Report On Wells or written authorization to proceed with the change in plans ratified by the Authorized Officer.

4. Weed Control:

A. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipelines, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

CONDITIONS OF APPROVAL

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B. The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad and resulting well are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

5. Hazardous Substances:

a. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act Of 1976, as amended (15 U.S.C. 2601, et. seg.) with regard to any toxic substances that are used, generated by or stored on the project/pipeline route or on facilities authorized. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193). Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.

b. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substances or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et. seg. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et. seg.) on this project/pipeline

(unless the release or threatened release is wholly unrelated to the holder's activity on the pipeline). This agreement applies without regard to whether a release is caused by the operator, its agent, or unrelated third parties.

6. Undesirable Events:

If, during any phase of the construction, operation, maintenance, or termination of the authorization, any oil or other pollutants, should be discharged, and impacting Federal land, the control and total removal, disposal, and cleaning up of such oil or other pollutants, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal land, or to repair all damages to Federal land resulting therefrom, the Authorized Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any liability or responsibility.

7. Archaeological, Paleontology, and Historical Sites:

CONDITIONS OF APPROVAL

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a. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the Authorized Officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder shall be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the Authorized Officer after consulting with the holder.

b. The holder is hereby obligated to comply with procedures established in the Native American Graves Protection and Repatriation Act (NAGPRA) to protect such cultural items as human remains, associated funerary objects, sacred objects, and objects of cultural patrimony discovered inadvertently during the course of project implementation. In the event that any of the cultural items listed above are discovered during the course of the project work, the holder shall immediately halt the disturbance and contact the BLM within 24 hours for instructions. The holder or initiator of any project shall be held responsible for protecting, evaluating, reporting, excavating, treating, and disposing of these cultural items according to the procedures established by the BLM in consultation with Indian Tribes. Any unauthorized collection or disturbance of cultural resources may result in a shutdown order by the Authorized Officer.

8. Sanitation:

The holder shall be responsible for maintaining the site in a sanitary condition at all times; waste materials shall be disposed of promptly at an appropriate waste disposal site. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes, and equipment.

9. Open-top Tanks: Any open-top tank containing oil and/or toxic fluids shall be covered with netting or equipped to prevent birds, bats, and other wildlife from entering the open-top tank.

10. Other: None

EXHIBIT D

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PERMANENT RESOURCE ROAD REQUIREMENTS

Operator: McKay Oil Corporation

BLM Serial Number: NM-36192

Well Name & NO.: Lookout "B" Federal #5

Location: Section 9, T. 6 S., R. 22 E.

1310' FSL & 400' FEL, Chaves County, N.M.

The holder agrees to comply with the following requirements:

1. GENERAL REQUIREMENTS:

A. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Permanent Resource Road Requirements.

B. The holder shall minimize any disturbance to structures on public domain surface. Damages caused to any structure during road construction operations shall be promptly repaired by the holder. Functional use of any structure shall be maintained at all times. The holder shall make a documented good faith effort to contact the owner prior to disturbing any structure.

C. When necessary to pass through an existing fence line, the fence shall be braced on both sides of the passageway prior to cutting and the fence shall be promptly repaired to at least it's former state or to a higher standard than it was previously constructed.

D. A professional engineer shall design the access road if the road grade exceeds 10 percent slope.

2. INGRESS AND EGRESS:

The access road shall be constructed to access the well pad on the Northwest corner of the well pad to comply with the planned access road route.

3. ROAD TRAVELWAY WIDTH:

On a nonsurfaced road the travelway of the road shall not exceed the construction of a 14 foot wide road.

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4. NON-SURFACING:

A. Surfacing material is not required on the new access road travelway. The Holder has the option to surface the access road if the Holder considers it necessary. Should the Holder elect to surface the access road, the Holder shall submit a Sundry Notices And Reports On Wells requesting approval for a change in the conditions of approval to surface the access road. The Holder shall obtain written approval from the Authorized Officer prior to surfacing (Call Mike McGee at 505-627-0340). The surfacing

material, depth and type, will be determined at the time of approval.

B. The nonsurfaced access road shall have a travelway which creates the smallest possible surface disturbance and does not exceed 14 feet in width. No drive-arounds with the exception of turnouts, are allowed outside the travelway.

C. The Authorized Officer reserves the right to require surfacing of the access road at any time if deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

D. If the new access road is not surfaced, no improvements shall be made on the access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

E. The holder shall surface and perform maintenance on all pre-existing surfaced access road(s) on federal surface prior to drilling operations. Surfacing is required on all other federal pre-existing surfaced roads beginning from the dedicated road (county road and/or state highway) to the beginning of the new access road construction.

5. CROWNING AND DITCHING (On Surfaced Roads Only):

Crowning with materials on site and ditching on one side of the road, on the uphill side, shall be required. The road cross section shall conform to the cross section diagrams in Figure 1 (attached page 6). Where conditions dictate, ditching shall be required on both sides of the road. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road).

6. DRAINAGE: No lead-off ditches are required for this road.

A. Drainage control shall be ensured over the entire road through the construction of ditches, sidehill outsloping and insloping, lead off ditches, culvert installation, and low water crossings.

B. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

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PERCENT SLOPE AND SPACING INTERVALS FOR LEAD-OFF DITCHES:

Percent slope	Spacing interval
0 4%	150' 350'
4 6%	125' 250'
6 8%	100' 200'
8 10%	75' 150'

CROSS SECTION OF TYPICAL LEAD-OFF DITCH

1' MINIMUM DEPTH

BERM

NATURAL GROUND SURFACE

C. A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

D. On road slopes exceeding 2%, water flow shall drain water into an adjacent lead-off ditch. Water flow drainage location and spacing shall be determined by the following formula:

FORMULA FOR SPACING INTERVAL OF LEAD-OFF DITCHES:

$$\text{spacing interval} = \frac{400' + 100'}{\text{road slope in \%}}$$

Ex. 4% slope: spacing interval = $\frac{400 + 100}{4} = 200$ feet

7. CULVERT INSTALLATION: No culverts are required on this road.

ONE (1) CULVERT SHALL BE INSTALLED AT THE DEEP WATERWAY CHANNEL FLOW CROSSING IN THE XX¼XX¼ OF SECTION - T. S. - R. E. (SEE EXHIBIT A - LOCATION MAP).

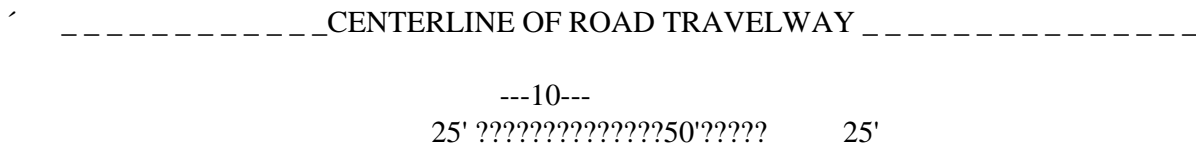
Culvert pipes shall be used where ravines, arroyo gullies, and deep waterway channel flows are crossed by the access road construction route. The culvert(s) shall not be less than XX inches in diameter (minimum 18 inch culvert). The location for the culvert installation is designated on the attached map - EXHIBIT A. (A culvert pipe installation diagram shall be attached to this requirement when a culvert is required to be installed, see EXHIBIT - X).

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8. TURNOUTS: No Turnouts Are Required On This Road.

Vehicle turnouts shall be constructed on all single lane roads (unless the Authorized Officer determines that the turnouts are not required). Turnouts shall be intervisible and shall be constructed on all blind curves with additional turnouts as needed to keep spacing below 1000 feet. Turnouts shall conform to the following diagram:

STANDARD TURNOUT - PLAN VIEW



9. CATTLEGUARDS: NONE REQUIRED

A. ONE (1) CATTLEGUARD SHALL BE INSTALLED AT THE FENCE CROSSING IN THE XX¼XX¼ OF SECTION - T. S. - R. E. (SEE EXHIBIT A - LOCATION MAP).

B. A cattleguard installation diagram shall be attached to this stipulation when a cattleguard is required to be installed - see

EXHIBIT X - DIAGRAM A & B).

C. The existing cattleguard(s) on the access road shall be replaced if they are damaged from heavy vehicular traffic use and the Authorized Officer determines that a new cattleguard shall be installed where the existing in place cattleguard(s) have deteriorated beyond practical use. The holder shall be held responsible for the condition of the existing in place cattleguard(s) that are utilized for vehicular traffic use on lease operations by the holder.

D. Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H 20, although AASHTO U 80 rated grids shall be required where heavy loads, (exceeding H 20 loading,) are anticipated. (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16 foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

10. MAINTENANCE:

A. The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, cattleguard maintenance, surfacing, and weed control.

B. The holder shall cooperate with other authorized users in maintenance of the road(s). Failure of the holder to share maintenance costs in dollars, equipment, materials, and manpower proportionate to the holders use with other authorized users may be adequate grounds to terminate the road use. The determination as to whether maintenance expenditures have been withheld by the holder and the decision to terminate the road use shall be at the discretion of the Authorized Officer. Upon request, the Authorized Officer shall be provided with copies of any maintenance agreements entered into by the holder.

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11. PUBLIC ACCESS:

A Public access on this road shall not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands shall not be locked or closed to public use unless closure is absolutely necessary and is authorized in writing by the Authorized Officer.

12. ROAD REHABILITATION REQUIREMENTS:

A. See -SURFACE RECLAMATION/RESTORATION REQUIREMENTS - EXHIBT E.

13. SPECIAL REQUIREMENT(S): NONE

EXHIBIT E

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SURFACE RECLAMATION/RESTORATION REQUIREMENTS

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36192

WELL NAME & NO: Lookout "B" Federal #5

QUARTER/QUARTER & FOOTAGE: SE $\frac{1}{4}$ SE $\frac{1}{4}$ - 1310' FSL & 400' FEL

LOCATION: Section 9, T. 6 S., R. 22 E., NMPM

COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).

B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who administers the reclamation requirements.

C. The holder shall comply with all the surface reclamation/restoration required by the Authorized Officer pertaining to the reclamation/restoration of the access road and well pad.

II. FORM 3160 5, SUNDRY NOTICES AND REPORTS ON WELLS:

A. The holder shall adhere to the following:

1. If the well is not drilled, please notify the BLM so that an official release can be approved.

2. Downhole requirement: If the well is a dry hole and will be plugged, approval of the proposed plugging program may be obtained orally. However, oral approval must be confirmed in writing by immediately filing a Sundry Notice And Report On Wells (Form 3160 5) "Notice of Intention to Abandon", an original and five (5) copies shall be submitted to the Roswell Field Office. The report should show the total depth reached, the reason for plugging, and the proposed intervals, by depths, where plugs are to be placed, type of plug, type of plugging mud, etc..

3. The same notification shall be required of the Holder for the reclamation/restoration of the access road and well pad. The Holder shall initially report surface reclamation/restoration of the access road and well pad concurrently with the Downhole requirement. A Sundry Notice And Report On Wells (Form 3160 5) "Notice of Intention to Abandon", an original and five (5) copies shall be submitted to the Roswell Field Office. Upon receipt of the "NOI" the Authorized Officer shall provide the holder with the specific requirements for the reclamation/restoration of the access road and well pad.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

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4. Subsequent Report Of Abandonment: The holder shall submit a second report on Form 3160 5, Sundry Notices and Reports On Wells, an original and five (5) copies shall be submitted to the Roswell Field Office, pertaining to the reclamation/restoration of the access road and well pad. The holder shall demonstrate that the surface reclamation/restoration requirements have been complied with. The holder shall specify that the reclamation work accomplished the restoration of the disturbed areas to as near the original surface condition the land was in prior to construction of the access road and well pad.

5. Final Abandonment Notice: The holder shall submit a third report on Form 3160 5, Sundry Notices and Reports On Wells, an original and five (5) copies shall be submitted to the Roswell Field Office, that shall ascertain that all surface reclamation/restoration requirements have finally been completed and that the access road and well pad are ready for final inspection. The holder shall specify that the surface has been reclaimed in accordance with federal regulations and request for the final approval of the access road and well pad.

III. BOND LIABILITY:

A. Liability under bond shall be retained until all surface reclamation/restoration of the access road and well pad has been completely reclaimed to the satisfaction of the Authorized Officer.

IV. ACCESS ROAD AND WELL PAD RECLAMATION REQUIREMENTS:

1. If the well is completed, all areas of the well pad not necessary for operations shall be reclaimed to resemble the original contours of the surrounding terrain.
2. Upon abandonment of the well, cut-and-fill slopes shall be re-contoured and reduced to a slope of 3:1 or less. The road shall be recontoured to as near the original topography, as possible.
3. Upon abandonment of the well, all production equipment shall be removed from the well pad and properly disposed of.
4. Upon abandonment the access road and well pad shall be ripped a maximum of 16 inches deep (Ripping depth will be determined by depth of soil shown in the Soil Conservation Service Survey Handbook).
5. All culverts and other road structures (e.g.: cattleguard, H-Braces, signs, etc.) shall be removed and properly disposed of.
6. All over-burden material shall be replaced in the cut areas, ditches, lead-off ditches, and any other excavated earthwork shall be back filled.
7. An earthen berm shall be constructed at the entrance of the road to prevent vehicular traffic on the reclaimed road.

V. Reserve Pit Reclamation Requirements:

A. Upon reclamation of the reserve pit, the impervious, reinforced, synthetic or fabricated 12 mil in thickness liner shall be used to encapsulate the reserve pit cuttings.

SURFACE RECLAMATION/RESTORATION REQUIREMENTS

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- B. The dried cuttings in the reserve pit shall be buried a minimum depth of three (3) feet below ground level.
- C. The reserve pit area shall be covered with a three (3) feet minimum cap of clean soil or like material that is capable of supporting native plant growth. Once the reserve pit contents have been capped, the cap shall not be disturbed without NMOCD approval.
- D. Should the cuttings in the reserve pit not meet the three (3) feet below ground level depth, the excess contents shall be removed from the reserve pit until the required minimum depth of three (3) feet below ground level requirement has been met. The excess cuttings shall be removed from the well location and shall be properly disposed of at an authorized disposal site.
- E. Contact Jerry Dutchover, at (505) 627-0236, three days before commencing the reserve pit reclamation.

VI. SEEDING REQUIREMENTS:

- A. The stockpile of topsoil shall be spread over the well pad to cultivate a seed bed. The holder shall not contaminate the topsoil stockpile with the reserve pit muds and/or cuttings.
- B. The reclaimed area(s) shall be seeded with the seed mixture that was determined by the Roswell Field Office for the Desired Plant Community on this well site.
- C. The same seed mixture shall be used for the reclamation of the access road and well pad.
- D. The planting of the seed shall be done in accordance with the following seeding requirements:
 - 1. The topsoil soil shall be plowed under with soil turning equipment and the plowed surface shall be disked before seeding. Seed shall be planted using a drill equipped planter with a depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture shall be evenly and uniformly planted over the disturbed area. Smaller/heavier seed has a tendency to drop to the bottom of the drill and is planted first; the holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed shall be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre noted below are to be doubled.
 - 2. The holder shall seed all the disturbed areas with the DPC seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed per acre, (Pounds of pure live seed per acre: pounds of seed X percent purity X percent germination = pounds pure live seed). There shall be no primary or secondary noxious weeds in the seed mixture.

In accordance with State law(s) the seed should be tested for purity and viability within nine (9) months prior to sell. Commercial seed shall be either certified or registered seed. The seed mixture container shall be tagged in accordance with State law(s) and the certified seed tag shall be made available for inspection by the Authorized Officer.

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3. Desired Plant Community seed mixture to be planted in pounds of pure live seed per acre:	
Slopes 0-15%, Elevation 3,200 to 4,500 feet	
Gravelly SD-3 for Gravelly CP-3 Ecological Site	
Common Name	Pounds of Pure

and Preferred Variety	Scientific Name	Live Seed Per Acre
Blue grama, var. Lovington	(<i>Bouteloua gracilis</i>)	1.50 Lbs.
Sideoats grama, var. Vaughn or El Reno	(<i>Bouteloua curtipendula</i>)	1.50 Lbs.
Sand dropseed	(<i>Sporobolus cryptandrus</i>)	0.50 Lb.
Plains bristlegrass	(<i>Setaria macrostachya</i>)	2.50 Lbs.
Vine mesquite	(<i>Panicum obtusum</i>)	1.50 Lbs.
Desert or Scarlet	(<i>Sphaeralcea ambigua</i>)	1.00 Lb.
Globemallow	or (<i>S. coccinea</i>)	
Desert zinnia	(<i>Zinnia grandiflora</i>)	0.50 Lb.
TOTAL POUNDS PURE LIVE SEED PER ACRE		9.00 Lbs.

4. If one species is not available, increase ALL others proportionately. The seed mixture shall be certified weed free seed. A minimum of 4 species is required, including 1 forb species.

E. The recommended time to seed is from June 15th through September 15th. The optimum seeding time is in mid-July. Successive seeding should be done either late in the fall (Sept. 15th Nov. 15th, before freeze up) or early as possible the following spring to take advantage of available ground moisture. However, the holder may seed immediately after completing surface abandonment requirements.

F. The seeding of the disturbed areas shall be repeated until a vegetative thicket is established on the access road and well pad. The Authorized Officer shall make the determination when the regrowth on the disturbed areas is satisfactory.

G. The holder shall be responsible for the establishment of vegetation on the access road and well pad. Evaluation of vegetation growth will not be made before the completion of the first growing season after seeding. The Authorized Officer reserves the right to require reseeding at a specific time if seed does not germinate after one growing season. Waiver of this requirement would be considered if diligent attempts to revegetate the disturbed areas have failed and the Authorized Officer determines that further attempts to replant the access road and well pad are futile.

H. Contact Mr. Richard Hill at (505) 627-0247 to witness the seeding operations, two (2) days prior to seeding the disturbed areas.

I. Invasive and Noxious Weeds Requirement:

1. The holder shall be held responsible if noxious weeds become established within the reclaimed areas. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the road, pad, associated pipeline corridor/routes, and adjacent land affected by the establishment of weeds due to this action.

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The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

2. The holder shall insure that the equipment and or vehicles that will be used to reclaim the access roads and well pad are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to reclamation of the access roads and well pad.

